



**STATE INVESTMENT BOARD  
BOARD ADOPTED POLICIES**

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**POLICY NUMBER:** 2.05.600

**EFFECTIVE DATE:** 3/20/03

**TITLE:** Economically Targeted Investments

**SUPERSEDES:** 11/21/01

**BOARD ADOPTION:** 3/20/03

**APPROVED:** *Joseph A. Dea*

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**PURPOSE:**

This document sets forth the policy of the Washington State Investment Board (WSIB or Board) with respect to Economically Targeted Investments (ETIs), defined for this purpose as investments having the primary objective of investment return to pension trust fund assets and the collateral objective of assisting the regional economy, and the economic well-being of the state of Washington, its localities and its residents.

**BACKGROUND:**

From time to time the pension trust funds managed by the WSIB are looked to as a source of potential stimulus for the economy of the state of Washington. In 1982 the Legislature passed HCR 37 urging the WSIB to emphasize in-state investment. In 2003 the legislature is pursuing ways to assist the WSIB in again focusing on in-state investments. The WSIB believes the state of Washington is an excellent place in which to invest the trust funds under management by the Board. This policy is designed to communicate the role and responsibilities of the WSIB relative to such initiatives.

**POLICY:**

The Board has a fiduciary duty to invest and to manage the entrusted funds in a manner consistent with statutes, regulations, Board policies and the highest standard of professional conduct for the exclusive benefit of fund beneficiaries. The WSIB evaluates investments in accordance with RCW 43.33A.110, which mandates that "the Board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk." This statutory objective applies in conjunction with RCW 43.33A.140, which provides the standard of care for investments. These mandates apply to the evaluation of all investment opportunities, including ETIs.

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### **INVESTMENT APPROACH:**

The WSIB believes that the state of Washington is an excellent place to invest, and in fact the Board has previously invested a significant amount of capital in Washington-based investments through its real estate, private equity, fixed income and public equity investment programs. The Board will continue to seek quality investment opportunities within the state in accordance with its established policies, statutory mandates and fiduciary duty.

It is the Board's intent to earn competitive risk-adjusted returns regardless of where the investment opportunity resides. The retirement funds' exposure to the state of Washington economy, inclusive of investments in ETIs, will generally, at a minimum, be in line with the state's representation in the eligible investment universe, and will be consistent with the Board's fiduciary obligations and independent exercise of discretion.

Accordingly:

- ◆ The Board will consider for investment only those ETIs that are commensurate on a risk-adjusted financial basis to alternatively available investments.
- ◆ The decision to invest in an ETI in consideration of its collateral benefits shall be made only after the opportunity is deemed acceptable exclusively on its economic investment merits.
- ◆ The collateral benefits of an ETI shall not be considered part of the return of the investment, nor a part of risk reduction.
- ◆ ETIs shall be made in accordance with the Board's approved asset allocation policies and included within existing asset categories, and shall conform to all of the laws, policies and procedures governing the WSIB.
- ◆ ETIs shall receive the proper level of due diligence and evaluation consistent with all other investment opportunities evaluated of similar type or classification.

If there is no expected diminution of investment returns or uncompensated risk in comparison to alternatively available investments, the Board may favor those investments that have a direct benefit to the economy of the state. However, the Board will only consider the secondary objective of promoting economic growth and well-being in the state when not in conflict with its statutory mandate to maximize return at a prudent level of risk, and its duties to the fund beneficiaries of loyalty, care, skill, prudence, diligence and diversification. Subject to staffing capacity, the Board will establish a staff function to facilitate exchange of information between its private equity general partners, and appropriate parties with knowledge of quality, in-state investment opportunities, such as the Washington Technology Center or the Spokane Intercollegiate Research & Technology Institute.

## **REPORTING:**

The Board will request its private equity general partners to provide, on an annual basis, a listing of all Washington-based investments evaluated during the prior calendar year, including a brief description of the opportunity, and the ultimate investment decision. WSIB staff, on an annual basis to the Board, its beneficiaries, the legislature and the Governor, will report a summary of its activities regarding ETIs selected for investment.

## **RESPONSIBILITIES:**

1. Board - Responsible for approving ETI policy and requesting its private equity general partners to provide, on an annual basis, a listing of all Washington-based investments evaluated during the prior calendar year.
2. Staff - Responsible for facilitating exchange of information between its private equity general partners, and appropriate parties with knowledge of quality, in-state investment opportunities and preparing the annual report of its ETI activities and providing it to the Board, beneficiaries, the legislature, and the Governor.